

Message Text

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ACTION EB-07

INFO OCT-01 EA-07 IO-10 ISO-00 FEA-01 OIC-02 AF-06 ARA-06

EUR-12 NEA-10 CIAE-00 DODE-00 NSAE-00 NSCE-00 SSO-00

USIE-00 INRE-00 AGR-05 CEA-01 COME-00 FRB-03 H-02

INR-07 INT-05 L-03 LAB-04 NSC-05 PA-01 AID-05 CIEP-01

SS-15 STR-04 TAR-01 TRSE-00 PRS-01 SP-02 OMB-01 /128 W

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SUBJECT: MTN - TROPICAL PRODUCTS NEGOTIATIONS

REF: 75 STATE 287116

1. MALAYSIA, HISTORICALLY AN EXPORTER OF PRIMARY PRODUCTS AND AN IMPORTER OF FINISHED GOODS, MAINTAINS GENERALLY LOW TARIFFS ON MOST PRODUCTS. U.S. HAS RECENTLY REPLACED SINGAPORE AS MALAYSIA'S LEADING TRADING PARTNER AND U.S. PRODUCTS HAVE SHOWN A MODERATE BUT STEADY GROWTH IN SHARE OF MALAYSIA'S TOTAL IMPORTS (NOW ABOUT 10.6 PERCENT, UP ONE AND ONE HALF PERCENT FROM LAST YEAR).

2. SOME TARRIFS (SEE BELOW) HAVE BEEN IMPOSED, HOWEVER, WHICH DO AFFECT THE SALE OF CERTAIN AMERICAN PRODUCTS. PURPOSE IS TO PROTECT DOMESTIC INDUSTRIES OR TO RESTRICT IMPORTS OF LUXURY GOODS. MECHANISM FOR IMPOSING TARRIFS ON MANUFACTURED GOODS IS SIMPLE. DOMESTIC MANUFACTURER REQUESTS GO M FEDERAL INDUSTRIAL DEVELOPMENT AUTHORITY TO IMPOSE TARIFF TO PROTECT HIS MARKET. QUITE OFTEN, TARIFF RATE IS SET AT LEVEL SUGGESTED BY DOMESTIC MANUFACTURER,

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SUBJECT TO PERIODIC REVIEW. IN ADDITION, THERE IS FIVE PERCENT

SURCHARGE (CIF VALUE) ON ALL IMPORTS (AS REVENUE MEASURE) EXCEPT CERTAIN SPECIFIC CATEGORIES SUCH AS MATERIALS UTILIZED BY "PIONEER INDUSTRIES", SO DESIGNATED UNDER TERMS OF INVESTMENT INCENTIVES ACT. REBATE OF TWO PERCENT IS GENERALLY PERMITTED ON OTHER IMPORTED ITEMS IF INTENDED FOR FURTHER PROCESSING.

3. IN EMBASSY VIEW, U.S. EXPORTS TO MALAYSIA OF FOLLOWING CATEGORIES OF MANUFACTURED GOODS (ALL OF WHICH HAVE DUTIES RANGING BETWEEN 35 AND 50 PERCENT AD VALOREM) COULD BE INCREASED IF TARIFFS SUBSTANTIALLY LOWERED. HOWEVER, THE EXPECTED INCREASE WOULD BE VERY MARGINAL IN TERMS OF OVER-ALL U.S. EXPORTS TO MALAYSIA, WHICH ARE ESTIMATED TO BE APPROXIMATELY M\$700 MILLION IN 1975. FURTHERMORE, IT IS OUR JUDGEMENT THAT A SIGNIFICANT TARIFF REDUCTION PROPOSAL FOR ANY OF THESE ITEMS WOULD ENCOUNTER SERIOUS OPPOSITION, EITHER FROM DOMESTIC INDUSTRY (WHICH IS GENERALLY HARD-PUT IN THE PRESENT RECESSION ENVIRONMENT) OR FROM THE GOVERNMENT WHICH IS TRYING TO REDUCE LUXURY IMPORTS, AS, FOR EXAMPLE, IN THE CASE OF COSMETICS ON WHICH THE TARIFF WAS RECENTLY INCREASED.

4. ALL FIGURES GIVEN BELOW ARE IN THOUSANDS OF MALAYSIAN DOLLARS (US\$ EQUALS M\$2.50). ESTIMATES OF POTENTIAL SALES INCREASES ARE TENTATIVE AT BEST.

ITEM	SITC	POTENTIAL SALES INCREASE (M\$ 000)
ORGANIC-ARSENIC COMPOUNDS	512820	M\$ 400
PAINTS	533300	500
COSMETICS	553011-069	4,080
PLASTIC PRODUCTS	581111-321	500
TEXTILES	651000	100
	652131-652296	880
	656610-954	250
	841100-400	50
CARPETS	657500-700	200
AIR CONDITIONING EQUIPMENT	719121-127	330
REFRIGERATION EQUIPMENT	719151-421	300
	725010-019	1,040
RADIO & TELEVISION SETS	724100-724209	500
ELECTRICAL APPLIANCES	725030-060	540
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BATTERIES	729110-129	400

TOTAL:	M\$10,910	

5. RE AGRICULTURE, MALAYSIA IMPORTED ABOUT M\$1.5 BILLION OF AGRICULTURAL PRODUCTS IN 1974 OF WHICH M\$105 MILLION (7 PERCENT) WERE FROM THE U.S. GRAINS, DAIRY PRODUCTS, AND SUGAR MAKE UP TWO THIRDS OF THE TOTAL AND ARE NOT DUTIABLE.

ITEMS OF INTEREST TO THE U.S. TRADE ARE TOBACCO, TEMPERATE ZONE FRUITS AND VEGETABLES, CITRUS, AND POULTRY, ALL OF WHICH MUST ENTER OVER HIGH PROTECTIVE TARIFFS.

ITEM	IMPORT DUTY	IMPORT SURCHARGE ON CIF VALUE
TOBACCO (LEAF)	M\$11.20 PER LB.	5 PERCENT PLUS M\$2.00 PER LB. EXCISE TAX
FRESH FRUIT	.60 PER LB.	5 PERCENT
POULTRY	.60 PER LB.	5 PERCENT
BREEDING ANIMALS	--	5 PERCENT

6. POULTRY IS VIRTUALLY EXCLUDED FROM THE MARKET BECAUSE OF THE DUTY AMOUNTING TO ABOUT 50 PERCENT AD VALOREM AT CURRENT PRICES. THE U.S. COULD PROBABLY SHIP M\$3.0 TO 4.0 MILLION PER YEAR OF WHOLE BIRDS AND PARTS IN THE ABSENCE OF A DUTY. HOWEVER, MALAYSIA'S INDUSTRY IS MADE UP LARGELY OF SMALLHOLDER PRODUCERS AND THE GOVERNMENT WOULD HAVE DIFFICULTY NEGOTIATING ON THIS ITEM BECAUSE OF PRODUCER PRESSURE.

7. IN SPITE OF THE HIGH DUTY, TOBACCO MUST BE IMPORTED TO MAINTAIN ACCEPTABLE CIGARETTE QUALITY. THE U.S. TRADE COULD BE DOUBLED FROM THE CURRENT LEVEL, M\$30 MILLION TO 40 MILLION PER YEAR, WITH THE REDUCTION OR REMOVAL OF IMPORT DUTIES. THERE ARE, HOWEVER, MORE THAN 70,000 GROWERS IN THE DEPRESSED KELANTAN-TRENGGANU AREA, PRODUCING 15-20 MILLION LBS. OF LEAF AT HIGH COST AND FOR ECONOMIC AND SOCIAL REASONS THE GOVERNMENT WOULD PROBABLY RESIST STRONGLY EFFORTS TO LOWER DUTIES.

8. TEMPERATE ZONE FRUITS (APPLES, PEARS, GRAPES) AND CITRUS IMPORTS ENTER WITH M\$.60 PER LB. DUTY PLUS 5 PERCENT SURCHARGE. THE DUTY WAS INCREASED BY 50 PERCENT IN NOVEMBER 1975. SINCE DUTIES ARE CHARGED ON CIF VALUE, THE EFFECT ON U.S. TRADE IS MORE LIMITED OFFICIAL USE

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SEVERE BECAUSE OF HIGHER FREIGHT CHARGES THAN NEARBY SUPPLIERS MUST PAY. IN THE ABSENCE OF SUCH DUTIES, TOTAL TRADE COULD BE INCREASED BY 50 PERCENT. NOTWITHSTANDING RECENT DUTY INCREASE, WHICH INTENDED AS REVENUE MEASURE AND TO REDUCE FOREIGN EXCHANGE COSTS FOR THESE "LUXURY" ITEMS DURING PRESENT ECONOMIC ENVIRONMENT, THIS COULD BE AREA FOR NEGOTIATION.

9. OF PARTICULAR INTEREST WOULD BE REMOVAL OF FIVE PERCENT SURCHARGE (REBATE NOT ALLOWED) FROM IMPORTS OF BREEDING CATTLE AND SWINE. GOM HAS ANNOUNCED INTENTION OF BECOMING SELF-SUFFICIENT IN BEEF, WITH IMPORTATION OF UP TO FIFTEEN THOUSAND HEAD OF BREEDING CATTLE PER YEAR FOR FIVE YEARS. RE SWINE, WHILE NOT SUBJECT OF FORMAL GOM PROGRAM, INDUSTRY IS DEVELOPING RAPIDLY. WE ESTIMATE THAT U.S. COULD PROVIDE OVER ONE THOUSAND HEAD SWINE BREEDING STOCK PER YEAR UNDER PRESENT RATE OF GROWTH. IMPORTERS HAVE

MENTIONED SURCHARGE AS BARRIER TO INCREASED U.S. SALES (U.S. SUPPLIERS DISADVANTAGED MORE THAN NEARBY SUPPLIERS UNDER CIF VALUE FORMULA). IN OUR VIEW, REMOVAL OF SURCHARGE FROM BREEDING STOCK APPEARS TO BE OBTAINABLE CONCESSION.
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